



FYI Withholding 5

Colorado Wage Withholding Tax Requirements

GENERAL INFORMATION

Employers are required to have a Colorado withholding account and remit Colorado withholding taxes if:

1. The compensation is subject to federal withholding for income tax purposes; and
2. Employees are Colorado residents (working inside or outside Colorado), **or** employees are nonresidents of Colorado performing services in Colorado. [§39-22-604, C.R.S.]

OPENING AN ACCOUNT

Apply for a wage withholding account online through Colorado Business Express at www.Colorado.gov/cbe and receive a Colorado Account Number (CAN) license number immediately. This application also sets up a sales tax license, if applicable. If you cannot apply online, you may complete and mail in the Colorado Sales Tax/Withholding Account Application (CR 0100). You will receive your license and account number by mail. Allow four to six weeks for processing. There is no fee for a withholding account.

CLOSING AN ACCOUNT

If a business no longer has employees, the wage withholding account must be closed within 30 days. Visit www.Colorado.gov/RevenueOnline to sign up for account access. Then you may close a wage withholding account quickly and easily. The account can also be closed using the Address Change or Business Closure Form (DR 1102).

FILING REQUIREMENTS

Withholding tax must be deducted and paid in whole dollar amounts. To determine filing frequency, estimate the amount of withholding tax that the business will expect to pay for all employees in one year. Based on that estimation the filing frequency for a new account will be as follows:

- **Quarterly**—Employers who report less than \$7,000 withholding tax per year. Quarters end on March 31, June 30, September 30 and December 31. Taxes are due to the Colorado Department of Revenue on the last day of the month following the quarter end date.
- **Monthly**—Employers who report between \$7,000 and \$50,000 withholding tax per year. Taxes are due to the Colorado Department of Revenue on or before the fifteenth day of the following month.
- **Weekly (Frequent)**—Employers who report more than \$50,000 withholding tax per year. Taxes for weekly filers must be transmitted to the Colorado Department of Revenue on or before the third business day following the end of the week in which a payroll was made. The week always ends on Friday. An employer must file a return/payment for any week during which they have a payroll and withhold Colorado income tax. A return/payment is not required for any week during which no tax is withheld. However, if no tax is withheld for an entire month the employer is required to file a \$0 (zero) return for the period ending on the last Friday of the month using EFT or Revenue Online.

Exception: If December 31 does not fall on a Friday and taxes were withheld between the last Friday filing and December 31, then weekly filers must make a final return/payment that includes all unpaid taxes through December 31. Therefore, December 31 will be the filing period ending date for this transmission, even if it is not a Friday. The payment is due three business days after December 31.

All weekly filers are required to obtain an EFT account number to remit their taxes electronically. See form DR 5785 to apply for an EFT account.

- **Seasonal**—Employers who report less than \$50,000 withholding per year, do not operate their business during the entire calendar year, and do not pay wages while the business is not operating may request a seasonal filing frequency. A monthly return must be filed for each month during the designated operating season and is due on or before the fifteenth day of the month following the operating month.

A withholding tax return must be filed for every filing period or at least once a month for weekly filers. If no taxes have been withheld during the filing period a return reporting zero tax withheld must be filed. When the due date falls on a weekend or holiday, taxes are considered timely if they are paid on the first business day following the due date.

The department will conduct an annual review to evaluate an employer's filing frequency. The filing frequency is measured by the amount of withholding tax paid during the "lookback period". The lookback period is defined by the preceding 12-month filing period (July 1 through June 30). For example, the filing status for calendar year 2012 will be set by examining the withholding tax remittances made from July 1, 2010 to June 30, 2011. Should the filing frequency increase due to this examination, the department will notify the employer before January of the next calendar year. However, if an employer is eligible to file less frequently, the department will not change the filing frequency. The employer must contact the department to request the frequency change. The employer must continue to file at the current frequency until the department provides notification of the frequency change if approved. The filing frequency can be verified through Revenue Online, (www.Colorado.gov/RevenueOnline).

Withholding Tax Nonfiler Notices

If an employer does not file a required return, an estimated tax due assessment may be issued. This arbitrary tax assessment is based on the filing history. If there is no filing history, then an arbitrary tax amount will be assessed. You are required to file an actual return and pay the appropriate amount of tax due. Even if you pay the estimated tax assessment, you are not relieved of the requirement to file the actual return.

HOW TO FILE AND PAY

There are two methods available for electronically remitting Colorado withholding taxes: through Revenue Online or by Electronic Funds Transfer (EFT).

- **Revenue Online**—Withholding payments and returns can be submitted through www.Colorado.gov/RevenueOnline by signing up for account access. You need your Colorado Account Number (CAN), which is your license number. You will file your returns through your Revenue Online Account. You create your own Login ID and Password. Once you start using Revenue Online, you will be able to see all the returns you have filed and your payment history in Revenue Online. Withholding tax filers that do not have wage withholding to report for a specific filing period may login and file a "zero" tax due through Revenue Online. There is a nominal fee for any online payment made.
- **Electronic Funds Transfer (EFT)**—Employers who pay more than \$50,000 withholding tax per year are required to file by EFT. Employers who do not meet this requirement are encouraged to file by EFT as it virtually eliminates the potential of processing errors. EFT is facilitated by making a telephone call and entering a series of touch-tone commands or by visiting www.Colorado.gov/Revenue/EFT, the EFT Web site. [§39-22-604.4, C.R.S.]

To become an EFT filer, you must complete the Authorization For Electronic Funds Transfer (EFT) For Tax Payments (DR 5785). The EFT withholding payment satisfies the filing requirement and a paper withholding return should not be filed in addition to the EFT payment. Filing a paper return in addition to your electronic payment may result in an erroneous bill being issued. If zero tax is withheld for a tax period, a zero EFT payment can be transmitted to satisfy your filing requirement.

Note: All EFT applicants must indicate whether the account shall be designated as credit or debit. The debit designation is available to all EFT filers free of charge, while the credit designation is rarely allowed by banking institutions and may require a bank fee for each transaction. Please check with your banking institution prior to applying for a credit designation to determine availability and cost. Additionally, you may be eligible to use your EFT account to pay sales, income and other tax payments. Your application should indicate all taxes for which you will use your EFT account.

- **Paper return and check or money order**—If an employer pays less than \$50,000 and cannot file by EFT or through Revenue Online, the Income Withholding Tax Return (DR 1094) should be completed and mailed along with a check or money order to the department. Please note that this process does increase the chances of an error or problem and the use of electronic payment options are strongly recommended. The form is available on the Taxation Web site, www.TaxColorado.com.

Note: The last mailing for withholding coupon booklets will be in January 2012 for existing withholding accounts who are not filing electronically. Withholding account applications received prior to November 30, 2011 will be included in the last mailing. Withholding applications received on or after December 1, 2011 will be required to file by EFT or through Revenue Online. If unable to file electronically, the DR 1094 may be downloaded from the Taxation Web site, www.TaxColorado.com.

ANNUAL INFORMATION RETURNS

Annual Wage and Withholding Statements (W-2s) must be filed with the Colorado Department of Revenue. It is preferred that these are submitted electronically through Revenue Online. Employers with more than 250 employees are required to file electronically.

Details on how to file through Revenue Online can be found at www.revenue.state.co.us/FileCoW2 (Note: the deadline to file W-2s will be month later if filed electronically through Revenue Online.)

If you cannot submit the W-2 forms electronically you must prepare the Annual Transmittal of State W-2 Forms (DR 1093) and submit copies of the paper W-2 forms to the department. (The DR 1093 is not needed if the W-2 forms are submitted electronically.)

Please note the following schedule for W-2 forms:

- By last day of January: Furnish form to each employee,
- By last day of February: File paper W-2 forms and DR 1093 (any catch-up payment due), or
- By last day of March: File W-2 forms through Revenue Online.

Further details about filing annual information returns is available in publication FYI Withholding 6, Methods of Filing Colorado Annual W-2 Tax Data.

CORRECTING RETURNS

Excess withholding paid in error

If a withholding return was previously filed with an erroneous excess payment, the employer should reduce the amount of future payments during the calendar year to offset the error. If the amount of the error exceeds the total tax due for the calendar year or if the error is discovered during the following calendar year, Claim for Refund (DR 0137) should be filed to claim a refund of the overpayment. If the error is discovered during the reconciliation process, a DR 1093 can be filed to claim the refund, even if W-2 forms are filed electronically.

Paying less than the amount due

If a withholding return was submitted that underreported the amount due, the balance of the tax can be paid with future supplemental returns filed for the erroneous tax period. The supplemental return should report only the additional tax not paid with the original return. A bill for penalty and interest, if applicable, will be mailed by the department after the supplemental payment is received.

Employees

If erroneous information was reported to an employee as excess tax withheld on a pay stub, or if the amount was withheld from an employee in error, then a supplemental schedule or letter must be attached to the DR 1094 stating:

- what the error is,
- the period in which the error occurred,
- the amount of each error,
- the date the error was discovered, and
- attach an employee affidavit consenting to the refund or credit for the employer and affirmation that the employee will not claim a refund or credit of such for personal income tax purposes.

CORRECTING W-2S

Informational errors

If a W-2 is issued with an informational error such as an incorrect Social Security number or account number, the Department of Revenue will accept a W-2C to correct the error. Submit the corrected W-2C forms with a cover letter to 1375 Sherman St., Room 634, Denver, CO 80261.

Withholding errors

If a W-2 is issued with an error in the amount of Colorado tax withheld, a corrected W-2C can be submitted on or before the due date (February 28) of the original W-2 submittal Annual Transmittal of State W-2s Forms (DR 1093). If a W-2C can no longer be filed and the W-2 indicates that an excess amount was withheld and paid to the state of Colorado, the employer must pay the difference and include penalty and interest with a supplemental DR 1094 for the period the excess amount was withheld. If a W-2C can no longer be filed and the W-2 indicates that less was withheld for Colorado than was actually withheld and paid to the state, the employer must claim a credit or refund for the difference and refund the balance to the employee.

W-4 FORMS

Colorado does not have a state equivalent of the federal form W-4. Employees should complete the federal W-4 for both federal and Colorado wage withholding tax purposes. An employer must file with the Department of Revenue any W-4 for any employee who is expected to earn more than \$200 per week and who lists more than 10 withholding allowances or an exempt status. Additionally, these W-4 forms shall include a cover letter listing the employer name, address, FEIN, and the number of Withholding Allowance Certificates included. The Colorado Department of Revenue will contact you should it be determined that the requested exemptions must be modified. Withholding Allowance Certificates should be mailed to:

Colorado Department of Revenue
Discovery Section
1375 Sherman Street, Room 634
Denver, CO 80261

1099 PAYORS

Beginning January 1, 2012, taxpayers who withhold from amounts paid and reported on a form 1099 must set up a separate account to pay the 1099 withholding.

MOTION PICTURE PRODUCTION

Employees who are not residents of Colorado and perform services in connection with any phase of motion picture production or television production or television commercials for less than 120 days during any calendar year are exempt from Colorado income tax withholding.

WITHHOLDING FILING FORMS AND RESOURCES

Revenue Online, www.Colorado.gov/RevenueOnline
Colorado Business Registration (Withholding Tax Application), <https://www.colorado.gov/cbe>
Withholding Tables – DR 1098
Electronic Funds Transfer (EFT) Application – DR 5785
EFT Information Packet – DR 5782
Withholding Coupons (Return) – File by EFT, Revenue Online or DR 1094
Annual Reconciliation – File by Revenue Online or DR 1093
You may obtain forms on the Web site at www.TaxColorado.com

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter, or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having the authority to bind the Department, has not formally reviewed and/or approved these FYIs.